

January 13, 2006

Federal Trade Commission  
Office of the Secretary

RE: Energy Labelling, Project No. R511994

I am writing in response to your Notice of Rulemaking to examine the effectiveness of the Appliance Labelling Rule.

Natural Resources Canada oversees the administration of the Regulations of Canada's Energy Efficiency Act which came into force in 1995. The Act gives Canada the authority to establish minimum energy efficiency standards for a range of energy using products imported into Canada and/or traded inter provincially. The Act also gives Canada the authority to prescribe the form and manner of labelling energy-using products or their packages or prescribe classes of energy-using products or their packages with respect to the products' energy efficiency.

Canada's EnerGuide label was introduced in the first Regulations to the Act in 1995. The form of the label was developed following extensive consultations with electricity utilities and with consumers in major centers of Canada.

The Regulations prescribe an EnerGuide label for six major electrical household appliances, and for room air conditioners. The form and manner of labelling as prescribed in the Regulations identify how and where to label. As well the Regulations define that the prescribed appliances and room air conditioners must also meet minimum energy efficiency standards, and meet verification and reporting requirements. Electricity utilities across Canada supported the development and implementation of the label and committed to promoting awareness and understanding of the label in their jurisdictions.

The bilingual black and white EnerGuide label publishes the energy consumption of appliances in kWh/yr and shows a bar where the appliance's energy rating is compared to other similar models sold in Canada. Canada's label is similar to that of the United States' EnergyGuide label; however, the kWh/yr rating appears much larger on the Canadian label than that of the US label, so emphasis is placed on the rating. Canada does not publish the operational cost of the appliance because that information can vary greatly from one province to another, though NRCAN publishes operational cost information in documents such as *The EnerGuide Appliance Directory* and on its product listing database available on the internet, reducing the reporting burden for manufacturers and dealers.

Many surveys since 1995 have been undertaken to determine the effectiveness of advertising and promotional activities aimed at informing consumers on the benefits of energy efficient appliances, by seeking the best EnerGuide ratings. During these surveys, EnerGuide labels have been presented to determine their effectiveness in conveying information about the energy performance of the product. Focus group surveys have validated the importance of the label to convey information about the energy efficiency of products labeled.

Natural Resources Canada also tested whether the EnerGuide label should be modified to increase understanding of the label, and presented labelling designs such as stars and operational costs. In contrast to a label which states unequivocally the energy consumption in kWh/yr, the stars scenario did not test as well with many consumers because they felt that this scenario did not provide comparative information and could present a bias as to 'what is good and what is not'. Comments ranged from – on which basis does one appliance get allocated 3 stars while another one might be allocated one star; or how significant is the difference between an appliance given a 2 star and one give a 3-star rating?<sup>1</sup>

Mall intercept interviews were conducted in 1999 to determine the usefulness of information on EnerGuide label, and it was determined that the majority of people find the information on the EnerGuide labels useful to some extent in helping select the most energy efficient model appliance. Based on their independent ratings, though, the indications are that more find labels with both kWh/yr and operational cost very useful than kWh/yr only. A small percentage of those surveyed found the label confusing, though the negative comments were quite fragmented, indicating that there is no single major label design issue. The main source of 'negative' reaction to the labels continues to be related to the understanding of kWh/yr as a measurement.<sup>2</sup> Canada also tested the ENERGY STAR design on these labels and there was agreement that ENERGY STAR provides a strong visual device and that it flagged what appliances were the most energy efficient. ENERGY STAR provides value to people who are not comfortable with the kWh/yr descriptor.

A consultation with industry following this report to determine if Canada should revise its label to include an operational cost showed that the disparity of electricity costs across Canada could not provide comparable information in the same manner as the kWh/yr which emphasizes energy consumption based on standardized methodologies applicable across Canada and so the department did not recommend a modification to the label.

As a result of these surveys and in consultation with and at the urging of industry, NRCan incorporated the ENERGY STAR high efficiency program into its programming as a way to help consumers, especially those who do not understand the concept of kWh/yr, with a simple approach to identifying energy efficiency. (The simplicity of ENERGY STAR is

---

<sup>1</sup> EnerGuide Label Focus Groups – final report. A report prepared for Natural Resources Canada by Sage Research Corporation, December 21, 1998

<sup>2</sup> EnerGuide Label Mall Intercept Interviews – final report. Prepared for Natural Resources Canada by Sage Research Corporation, March 31, 1999.

in its symbol.) ENERGY STAR is based on specific specifications which correspond to the regulatory requirements for appliances, and establish levels of performance developed in consensus with industry. It was included as part of NRCan's portfolio of activities in 2001 as a complement to the EnerGuide Labelling Program.

In contrast to the US EnergyGuide label, Canada places qualification to ENERGY STAR on the bottom of the EnerGuide label. It was felt that the bottom location showcases the ENERGY STAR symbol and provides sufficient room, to explain in both English and French, what the symbol represents. Manufacturers presented with this option agreed that locating the symbol on the bottom provided more prominence to the symbol. However this is not a mandatory requirement for manufacturers and it has been found that not all manufacturers with qualifying appliances take advantage of the positive of benefits of associating their qualifying appliance with the quantitative information on the EnerGuide label.

After the publication of the labelling requirements for appliances and room air conditioners, Canada introduced in 1997, a voluntary labelling program for heating and cooling equipment, under the EnerGuide brand name. This program was designed to be self-sustaining. It is managed on NRCan's behalf by an industry association on behalf of industry. The rationale behind this voluntary program was that requiring a label on an HVAC product (furnace, central air, heat pump) would be minimally effective because consumers do not buy furnaces or central air conditioning equipment in the same way as appliances (visit to store) and would not see the label with energy efficiency information at or before the purchase.

NRCan undertook surveys with HVAC dealers to determine what would be the ideal program scenario for an HVAC labelling program and surveys with consumers to determine their reaction to the efficiency rating system and the label that would present the efficiency rating of a given product.<sup>3</sup> The dealer survey recommended that the rating appear on brochures or product information rather than on the product. It was felt that this provided an opportunity for dealers to explain to consumers the energy efficiency rating and to introduce more efficient options. The focus group survey made recommendations on the design of the label, but specified that a label alone would not be enough to influence consumer choice to more efficient options. It was therefore recommended that a program which incorporates labelling, training of trades, and awareness would be more effective. The voluntary program is managed on NRCan's behalf by the Heating, Refrigeration and Air Conditioning Institute (HRAI) which represents the majority of manufacturers and dealers of HVAC equipment in Canada. HRAI works with member and non-member organizations to require that the product ratings be published and reports to NRCan annually on the progress of the initiative, and provides quantitative/shipment weighted data on the energy efficiency improvements of products which are included in this voluntary program. All products included in this program must also meet the prescribed requirements (minimum energy efficiency standards and third party and reporting) of the Regulations of Canada's Energy

---

<sup>3</sup> Energy Efficiency Labelling of Furnaces and Central Air Conditioners : Focus Groups – Full Report. A report prepared for Natural Resources Canada by Abt Associates of Canada, April 1995

Efficiency Act. Since 1997, Canada has added residential HVAC equipment as part of its ENERGY STAR program, and it is felt that labelling, in combination with partnership activities with utilities and stakeholders, and incentives, have had an influence on the availability and the market penetration of high efficiency HVAC products in Canada.

EnerGuide ratings for gas fireplaces were recently introduced in Canada. This voluntary initiative calls for the publication of ratings in product brochures. NRCan also publishes ratings on the internet which correspond with the rating on the brochure. The metric and label design were determined following extensive focus group surveys with consumers and dealers. Star ratings with and without fireplace efficiency ratings were tested, along with other label elements. Stars on a label without supporting fireplace efficiency ratings and other categorical labels were eliminated from the mix because stars could be misunderstood as implying overall quality for a gas fireplace.

It is important to note that in Canada, the gas fireplace standard does not differentiate units based on whether they are used for heating or for decorative purposes. This helps to demonstrate the tremendous range of efficiency of all gas fireplaces and to influence consumer choice to the most efficient units. It is too early to tell what influence this rating has had on the availability of higher efficiency units, but it does provide a means for promoting the most efficient units.

It is important to note that as a complement to the EnerGuide label, Canada publishes in both paper and electronic format, listings of the energy consumption of all units sold in Canada. These listings provide a way to monitor compliance, and to ensure that units sold in Canada comply with Canada's Energy Efficiency Regulations. Canada also undertakes from time to time audits to determine labelling practices by retailers and manufacturers – one such audit will be undertaken in January 2006 in four Canadian cities.

The publication of on-line and paper directories also enables consumers and manufacturers to verify the accuracy of the energy performance data and to report any inconsistencies to NRCan.

This information is being presented as background to the Federal Trade Commission on the progress of Canada's labelling initiative, and to help respond to some of the questions posed in the Federal Register.

Are there any reports that estimate the benefits and costs of labelling? And how should FTC measure effectiveness of labelling?

Canada has undertaken an attribution study to determine the effectiveness of labelling to help consumers make more energy efficient choices when shopping for appliances. The study showed that labelling products did have an impact at the time of purchase, though the impact varied depending on the appliance chosen. For example, of the consumers who selected a more efficient dishwasher, approximately 1 in 10 did so because of the

label.<sup>4</sup> If the objective of FTC is to determine whether consumers use the label to make more energy efficient choices, NRCan recommends that FTC should consider doing Discreet Choice Analysis; this methodology would help FTC determine the following:

- Do consumers understand the energy use related information on the labels?
- Can they use this information in comparing models?
- Do they choose the more energy efficient one? Or
- If do not choose the most energy efficient one, why not?

Discreet Choice Analysis includes market surveys but should also be augmented by other surveys to determine overall market effectiveness such placement of label (whether or not labels are needed on the product, based on how a product is purchased or seen before the purchase); the purchase environment of the product (whether or not products are sold in retail, through wholesale, or other means such as internet), and status of labelling compliance.

How effective is the label in providing consumers with useful information?

The EnerGuide and the EnergyGuide label are effective tools in providing support and information to organizations across North America that offer incentives and rebates based on the energy performance of appliances. The energy consumption rating on the label also validates the ENERGY STAR rating.

It is recommended that US FTC consider increasing the size or the prominence of the energy consumption rating in kWh/yr on the label to make the information more visible to consumers and to allow them to compare the rating across other similar products on a showroom floor or in product information.

It is also recommended that the visibility of the ENERGY STAR symbol on the EnergyGuide label be enhanced, and/or positioned in a more prominent location on the label.

#### Impact of ENERGY STAR and EnerGuide

In Canada, ENERGY STAR has had a tremendous impact on the sale of more energy efficient appliances. In 2004, a survey showed that 40% of the refrigerators sold in Canada were ENERGY STAR qualified; 76% of the dishwashers and 35% of the clothes washers sold were ENERGY STAR qualified.<sup>5</sup> These tremendous results show the value of specific programming efforts by utilities and governments across Canada to promote the purchase of energy efficient appliances.

ENERGY STAR awareness as a result of activities across Canada has increased over the past four years, with non-aided awareness rising to 36% in 2005 from 13% in 2001. Aided awareness is in the 80% range.<sup>6</sup>

---

<sup>4</sup> Determining Impact Attribution for the EnerGuide Equipment Program. A report prepared for Natural Resources Canada by Market Explorers.

<sup>5</sup> 2005 Major Appliance Industry Trends and Forecast. A report prepared by the Canadian Appliance Manufacturers Association – Electro-Federation of Canada. April 2005

<sup>6</sup> Tracking Study : Awareness of ENERGY STAR/EnerGuide symbols 2005. A report prepared for Natural Resources Canada by Ipsos Reid . June 2005

The awareness of EnerGuide has stayed around 50% for the past 4 years, which reflects the value placed on high efficiency in Canada, and the increased promotional activities of ENERGY STAR qualified equipment by manufacturers of appliances and organizations.<sup>7</sup>

Would a categorical label design significantly improve energy efficiency?

NRCan believes that the important presence of ENERGY STAR in the Canadian and American marketplace provides consumers with the type of information that a categorical label would typically provide.

The criteria should continue to be based on federal minimum energy efficiency standards and test procedures, and the high efficiency level should continue to be based on the technical potential improvements. The high efficiency criteria should also be based on the ENERGY STAR guiding principles for developing criteria.

Should descriptors change?:

Descriptors should enable consumers to compare models in absolute numbers, and should be derived from standardized test procedures. Whether they are kWh/yr or AFUE, these descriptors should provide consumers with the ability to compare products on an equal footing.

As to whether the labels should put additional information such as modified energy factor or water factor, it is suggested that technical terms should be limited and easier ways to reference this information, again in absolute terms (such as percentages) be developed.

In addition, as is currently done in Canada and the US, information complementary to the label should continue to be provided for program promoters (utilities, governments, environmental groups) as a way to get more technical information about product performance in order to develop better programming.

On Reporting Requirements, can the reporting process be improved?:

In contrast to the US, manufacturers and dealers' reporting requirements are provided to one department in Canada. Canada has adopted a standardized electronic reporting format that makes it easier for manufacturers and dealers to submit under Canada's Energy Efficiency Regulations reporting requirements. It is recommended that in the US, manufactures report information on all products to only one organization to facilitate with their reporting requirements.

Canada also consults with stakeholders on the reporting requirements when Regulations (modifications or new) are proposed.

On the ranges of comparability, is the process effective?

Canada recommends that changes be made to the ranges only once per year.

Conclusion:

Since the Canadian and the American labels often appear together – side by side or back-to-back, any changes made to the EnergyGuide label will have a tremendous impact on the Canadian EnerGuide label. Should any major changes be done to the EnergyGuide label, it would be vitally important that the Federal Trade Commission include Canada in stakeholder discussions and work with its Canadian labelling counterparts to ensure harmonization on the form and manner of labelling – which would include label size and design (categorical, comparative or endorsement label), use of descriptors, size of label, information on label and placement of label.

I hope that this information will be useful in the Federal Trade Commission's evaluation of its current Appliance Labelling Rule.

Please do not hesitate to contact me for additional information.

Sincerely,

Anne Wilkins  
Senior Program Manager, Equipment Labelling  
Office of Energy Efficiency  
Natural Resources Canada  
Government of Canada  
1 Observatory Crescent, 2<sup>nd</sup> floor  
Ottawa, ON K1A 0E4  
CANADA

613-992-3900  
Awilkins@nrcan.gc.ca